

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF**

SHARON G. SCOTT

JUNE 3, 2011



DOCKET NO. 2010-181-E

**Application of Lockhart Power Company for
Adjustment of Rates and Charges**

DIRECT TESTIMONY OF SHARON G. SCOTT

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2010-181-E

IN RE: APPLICATION OF LOCKHART POWER COMPANY FOR

ADJUSTMENT OF RATES AND CHARGES

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Sharon G. Scott. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as Senior Manager for Rate Cases.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science in Business Administration, with a major
in Accounting from the University of South Carolina in May 1983 and a Master
of Business Administration from Webster University in May 2000. I began my
career with the South Carolina Public Service Commission ("Commission") in
July 1983. While employed there, I participated in numerous rate cases and
various other filings for electric, gas, telecommunications, water and wastewater
utilities. In January 2005, I began my employment with ORS and became
manager of Water and Wastewater and Telecommunications Audits. Currently, I
am Senior Manager for all rate cases.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth my findings and recommendations resulting from ORS's examination of the application of Lockhart Power Company ("the Company" or "Lockhart") in this docket. The application was filed on February 14, 2011.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF LOCKHART'S APPLICATION.

A. ORS's examination of the Company's application for Adjustments of Rates and Charges consisted of three major steps. In step one, ORS verified that the operating experience and rate base, reported by the utility in its application, were supported by the Company's accounting books and records for the test year. In the second step ORS tested the underlying transactions in the books and records for the same period to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes and were properly recorded. Lastly, our examination consisted of adjusting, as necessary, the revenues, expenditures and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Application of Lockhart Power Company:

- Audit Exhibit SGS-1: Operating Experience, Rate Base, and Rates of Return for Total Electric and Retail Electric Operations.
- Audit Exhibit SGS-2: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit SGS-3: Depreciation and Amortization Expense Adjustment
- Audit Exhibit SGS-4: Computation of Income Taxes

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for electric utility rate cases. These exhibits show various aspects of Lockhart's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit SGS-1 shows Lockhart's operating experience, rate base, and rates of return for electric operations for the test year ended December 31, 2009. The exhibit's format is designed to reflect the Application per books and ORS's proposed accounting and pro forma adjustments necessary to normalize the results of Lockhart's test year operations.

Column (1) shows the Application per books for total electric operations for the test year ended December 31, 2009. ORS verified total operating revenues of \$23,847,744, total operating expenses of \$21,878,895 and total income for return of \$1,954,178 to the Company's books and records. ORS verified total rate base of \$20,197,269. Total per book rate of return of 9.68% was calculated by dividing total income for return by total rate base.

Column (2) shows ORS's proposed accounting and pro forma adjustments, for total electric operations, made to normalize the Application per books. An explanation of each adjustment is contained in Audit Exhibit SGS-2.

Column (3) is the result of Column (1) and Column (2) and shows total operations after the proposed total electric adjustments.

Column (4) reflects the Company's allocation of Total Electric Operations to Retail Electric Operations. Using total income for return of \$1,421,586 and total rate base of \$14,803,022, a rate of return of 9.60% was computed.

Column (5) shows the allocation of ORS's proposed accounting and pro forma adjustments from Total Electric to Retail Operations. Each adjustment is shown in Audit Exhibit SGS-2 and explained further in the testimonies of ORS witnesses.

Column (6) shows the Company's Retail Operations after ORS's accounting and pro forma adjustments by adding column (4) and (5). Using total income for return of \$1,080,687 and total rate base of \$17,362,162, a rate of return of 6.22% was computed.

Column (7) shows the adjusted proposed increase along with the resultant tax adjustments for Retail Electric Operations. An explanation of each adjustment is contained in Audit Exhibit SGS-2.

Column (8) shows the effect of the adjusted proposed rate increase by adding columns (6) and (7). Using total income for return of \$2,083,364 and total rate base of \$17,362,162, a rate of return of 12.00% was computed.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS-2.

1 A. For comparative purposes, ORS's and the Company's adjustments are both
2 presented in Audit Exhibit SGS-2. The adjustments are listed separately as
3 'Lockhart Total Electric', 'ORS Total Electric' and 'ORS Retail Electric'. The
4 ORS Electric Department reviewed and recommended the retail allocators as
5 discussed by Witness Anthony James. The Audit and Electric Departments were
6 responsible for various adjustments. I will discuss the adjustments primarily
7 reviewed by the Audit Department.

8 Adjustment 3c -Duke true-up for 2009 - The Company proposes to account for the
9 annual Duke true-up to reflect the actual cost of purchased power. The true-up was
10 computed by Duke after the end of the test year. ORS verified and recalculated
11 estimated and actual costs for demand, energy, and ancillary charges to Duke
12 source documents. The net refund represented a reduction to purchased power
13 costs of (\$1,445,686).

14 Adjustment 4a - City of Union Diesel Production Expenses - The Company
15 proposes to include the operating and maintenance expenses for four (4) diesel
16 peaking generators recently purchased from the City of Union. The costs were
17 based on the operating cost of three (3) generators at the Pacolet plant currently
18 owned by the Company. ORS verified current costs of \$73,382, which included
19 mileage, fuel, labor, annual environmental protection fees, general maintenance and
20 an extended warranty and maintenance agreement to the Company's books and
21 records. These costs were multiplied by 1.33334, to reflect the operating costs of
22 four (4) diesel generators, for a total adjustment of \$97,843.

1 Adjustment 4c – Training Grant Credit Removal – The Company proposes to
2 normalize the test year expenses to reflect a training grant credit received during the
3 test year. The grant was for training new employees in hydro plant operation,
4 levels 2 & 3, Accounting, and utility grounding and clearance training. The
5 training was completed by December 31, 2009. The Company used current
6 employees to train the new employees and therefore did not incur any incremental
7 costs. ORS verified a training grant credit in the amount of (\$5,307) to the
8 Company's books and records. The adjustment of \$5,307 removes the credit to
9 reflect current labor on a going-forward basis.

10 Adjustment 5 – Labor Adjustment – The labor adjustment proposed by the
11 Company adjusts for annualized wages in the test year and includes an employee
12 count adjustment for new hires after the test year. It also includes the full salary
13 for one employee previously on military leave. ORS computed its wage
14 adjustment by annualizing the latest payroll at March 2011. ORS included 25%
15 of the employee's salary assigned to Wellford operations instead of the 50%
16 proposed by the Company. The allocation percentage for Wellford operations is
17 explained by ORS Witness Leigh Ford. ORS computed a total wage adjustment
18 of \$321,801. Of this amount, \$61,979 was capitalized using a ratio of 19.26%.
19 The ratio was based on test year actual wages capitalized. The resulting expense
20 adjustment of \$259,822 was allocated to Production - \$98,213, Transmission -
21 \$14,472, Distribution - \$51,419, Customer Accounts - \$25,982, and
22 Administrative and General - \$69,736. The wage distribution ratio was based on

1 actual per book labor expenses. The labor adjustment is allocated to functional
2 accounts in adjustments 4d, 5a, 5b, 5c, and 6a.

3 Adjustment 6c – Portion of Fringe Benefits on Wage Adjustments – This
4 adjustment accounts for fringe benefits associated with the wage increase which
5 include the Company's retirement plan and other post employment benefits. The
6 Company proposes an adjustment of \$26,908. ORS computed a total fringe
7 benefits adjustment of \$11,826. Of this amount \$2,278 or 19.26% is capitalized
8 resulting in the remaining expense adjustment of \$9,548.

9 Adjustment 6d – Non-allowable Expenses – ORS proposes to remove expenses
10 considered non-allowable for ratemaking purposes. The expenses included
11 advertising, donations, sponsorships, memorials, non-regulated items and other
12 miscellaneous expenses which total (\$19,050).

13 Adjustment 7a – Rate Case Amortization - The Company estimated total rate case
14 expenses of \$113,000 to be amortized over two years for test year expenses of
15 \$56,500. ORS reviewed and verified rate case expenses of \$105,905 and also
16 recommends a 2-year amortization resulting in expenses included in the test year of
17 \$52,953. This amortization period was used since the Company anticipates filing
18 another rate case in two years to recover other capital project costs. The
19 expenditures included the cost of service and rate design consultant, legal expenses,
20 rate of return consultant and other miscellaneous expenses related to filing the rate
21 case.

22 Adjustment 7b – Prior Rate Case Expenses – This adjustment removes prior rate
23 case expenses associated with the previous rate case docket from test year expenses.

1 ORS verified the amount to be removed of (\$30,217) to the Company's books and
2 records.

3 Adjustment 8a – Depreciation Expense – The Company proposes to annualize
4 depreciation expense and account for depreciation on normal plant additions
5 through July 2010. Additionally, the Company proposes to include depreciation
6 expense for the Union Diesel Generators and the Wellford Landfill Gas Project.
7 ORS updated and verified plant balances as of March 2011 and used this basis to
8 compute depreciation expense. The depreciation rates used were verified by the
9 ORS Electric Department. ORS computed a total depreciation expense adjustment
10 of \$246,769. Details of the adjustment are shown in Audit Exhibit SGS- 3.

11 Adjustment 9a – Property Related Tax Adjustment – The Company proposes to
12 adjust property taxes to account for updated plant through July 2010 and include the
13 property taxes for the Union Diesel Generators and Wellford Landfill Gas Project.
14 ORS updated the tax base to March 2011. The property tax rate of .326905 was
15 recomputed and verified and applied to the updated tax basis computed by ORS.
16 The adjustment amounted to \$196,272.

17 Adjustment 9b – Payroll Tax Portion of Wage Adjustment – This adjustment
18 accounts for the FICA, and unemployment taxes associated with the wage increase.
19 ORS computed a total tax adjustment of \$33,507, of which 9.26% or \$6,453 was
20 capitalized, resulting in an expense adjustment of \$27,054.

21 Adjustment 9c – Revenue Tax Adjustment due to Adjusted Revenues – This
22 adjustment is made to adjust taxes for changes in the revenue. ORS verified the
23 rate of .0037643 as the revenue tax factor which accounts for city license and gross

1 receipts taxes. A revenue tax adjustment of (\$12,135) was computed using ORS's
2 net revenue adjustments of (\$3,223,904) and the tax rate of .0037643.

3 Adjustment 10 – State Income Taxes – This adjustment updates income taxes after
4 ORS accounting and pro forma adjustments. ORS used a 5% tax rate for state
5 income taxes. Details of the computation of income taxes are shown in Audit
6 Exhibit SGS-4.

7 Adjustment 11 – Federal Income Taxes - This adjustment updates income taxes
8 after ORS accounting and pro forma adjustments. ORS used a 34% rate for
9 federal income taxes which is based on the Company's level of federal taxable
10 income. Details of the computation of income taxes are shown in Audit Exhibit
11 SGS-4.

12 Adjustment 13a – Wellford Plant Addition – The Company proposes to adjust for
13 Wellford plant additions through July 31, 2010. ORS updated Wellford plant
14 expenditures through March 2011 for total costs of \$2,742,191. This amount was
15 verified to the Company's books and records. ORS examined a sample of these
16 plant expenditures to ensure that they were related to the project, properly
17 approved, and allowable for ratemaking purposes. No material exceptions were
18 found. From this amount, ORS removed a refund of \$448,787 received from the
19 contractor of the Wellford project. Witness Ford will explain the details of the
20 Company's refund. The net adjustment made to plant in service was \$2,293,404.

21 Adjustment 13b – City of Union Peaking Plant Addition – The Company made an
22 adjustment to plant in service to account for the purchase of four (4) diesel
23 peaking generators from the City of Union. ORS reviewed the proposed booking

1 of the purchase transaction which included booking the original cost of the plant
2 of \$2,473,171, original accumulated depreciation of (\$507,339), and the negative
3 acquisition adjustment of (\$437,429). The net result is the inclusion of the lower
4 purchase cost of \$1,528,403 in plant in service. This cost includes the purchase
5 price of \$1,510,000 and additional miscellaneous costs of \$18,403.

6 Adjustment 13c – Normal Activity through March 2011 – The Company made an
7 adjustment to update normal plant activity through July 2010. ORS proposes to
8 update normal plant activity through March 2011. ORS examined a sample these
9 expenditures to ensure that they were related to the project, properly approved, and
10 allowable for ratemaking purposes. No material exceptions were found. ORS
11 proposes an adjustment of \$682,193.

12 Adjustment 8b – Accumulated Depreciation - The Company proposes to update
13 accumulated depreciation through July 2010 for normal plant additions and the
14 Wellford and Union Diesel projects. ORS proposes an adjustment of \$2,404,179
15 to adjust accumulated depreciation through March 2011 for annualized
16 depreciation on all plant updates. The adjustment also includes the original
17 accumulated depreciation of \$507,339 and the negative acquisition adjustment of
18 \$437,429 for the City of Union Purchase adjustments. See Audit Exhibit SGS-3
19 for details of the adjustment.

20 Adjustment 14a – CWIP – Update Balance – The Company proposes to update
21 CWIP to reflect the balance at July 2010. ORS proposes to update CWIP through
22 March 2011. ORS reviewed open projects which include the Upper Pacolet
23 hydroelectric project, Pacolet substation, bucket truck, new information technology

1 system and other miscellaneous projects. Additionally, ORS sampled open work
2 orders to ensure that the items chosen were related to the projects, properly
3 approved, and allowable for ratemaking purposes. No material exceptions were
4 found. ORS made an adjustment of \$4,423,314.

5 Adjustment 14b – CWIP – Remove Wellford Plant – The Company proposes to
6 remove Wellford plant from CWIP and transfer to plant in service. ORS updated
7 Wellford plant through March 2011 and proposes an adjustment to transfer the
8 balance of (\$2,742,191) to plant in service.

9 Adjustment 14c – Union Diesel Plant Adjustments - The Company proposes to
10 remove from CWIP additional costs for the Union Diesel project. The costs
11 included earnest money of \$100,000 which was applied towards the purchase price
12 and \$18,403 for appraisal fees, environmental site assessment, spill containment
13 and miscellaneous charges. ORS verified these costs to the Company's books and
14 records and proposes an adjustment to remove (\$118,403).

15 Adjustments 14d and 14e – Capitalized Wages – This adjustment accounts for the
16 labor spent on capital projects. The Company made two adjustments to account for
17 capitalized wages. ORS made one adjustment of \$70,170 for capitalized wages,
18 taxes and benefits associated with the annualization of the March 2011 payroll.
19 The capitalization ratio of 19.26% was based on the actual wages capitalized during
20 the test year.

21 Adjustment 15a – Materials and Supplies Inventory - ORS proposes to use a 13-
22 month average to normalize the material and supplies account. ORS used the most
23 recent 13-month period available, March 2010 through March 2011. The

adjustment amounts to a reduction to materials and supplies of (\$12,018) to normalize the test year for the most recent inventory levels.

Adjustment 16 – Rate Revenue – Based upon ORS Electric Department calculations, Lockhart’s proposed rates would produce additional revenues of \$1,605,208 for Retail Electric Operations. Details of this adjustment are shown in the testimony of Witness James.

Adjustment 17 – Other Taxes - ORS proposes to adjust for other taxes associated with the proposed rate increase. ORS verified the tax rate of .0037643 which accounts for the city license and gross receipts taxes. A revenue tax adjustment of \$6,042 was computed using ORS’s net revenue adjustments of \$1,605,208 and the tax rate of .0037643.

Adjustment 18 – State Income Taxes - ORS proposes to adjust for state income taxes associated with the proposed rate increase. See Audit Exhibit SGS-4 for the computation of income taxes.

Adjustment 19 – Federal Income Taxes - ORS proposes to adjust for federal income taxes associated with the proposed rate increase. See Audit Exhibit SGS-4 for the computation of income taxes.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit SGS-3 shows the depreciation and amortization expense adjustments using updated plant balances as of March 2011, which include the Wellford and Union Diesel projects. The depreciation rates were reviewed and recommended by the Electric Department. The exhibit also shows the updated accumulated depreciation as of March 2011.

1 Audit Exhibit SGS-4 shows the computation of state and federal income
2 taxes using 5% and 34%, respectively. The exhibit shows the computation of
3 income taxes on total electric and retail operations and on operations after the
4 proposed increase.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.**Yes, it does.

Lockhart Power Company

Operating Experience, Rate Base, and Rates of Return
Test Year Ending December 31, 2009
Docket No. 2010-181-E

Audit Exhibit SGS-1

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total Electric		Retail Electric		After ORS			
	Application Per Books	Accounting & Pro forma Adjustments	After ORS Accounting & Pro forma Adjustments	Application Per Books	Accounting & Pro forma Adjustments	After ORS Accounting & Pro forma Adjustments	Proposed Increase	After Proposed Increase
Operating Revenue								
Rate Revenue	23,809,379	(3,958,932) (A)	19,850,447	14,495,579	(2,364,971) (A)	12,130,608	1,605,208 (U)	13,735,816
Other Revenue	38,365	735,028 (B)	773,393	37,419	368,612 (B)	406,031	0	406,031
Total Operating Revenues	23,847,744	(3,223,904)	20,623,840	14,532,998	(1,996,359)	12,536,639	1,605,208	14,141,847
Operating Expenses								
Purchased Power	14,899,637	(3,222,618) (C)	11,677,019	7,821,364	(1,974,681) (C)	5,846,683	0	5,846,683
Production	962,166	422,754 (D)	1,384,920	505,405	195,088 (D)	700,493	0	700,493
Transmission	205,132	14,472 (E)	219,604	108,767	3,890 (E)	112,657	0	112,657
Distribution	722,784	51,419 (F)	774,203	708,611	50,418 (F)	759,029	0	759,029
Customer Accounting	382,960	25,982 (G)	408,942	369,706	23,778 (G)	393,484	0	393,484
Administrative & General	1,357,213	(21,035) (H)	1,336,178	1,055,325	(16,174) (H)	1,039,151	0	1,039,151
Regulatory Expense	35,417	22,736 (I)	58,153	30,217	22,736 (I)	52,953	0	52,953
Depreciation	1,219,499	246,769 (J)	1,466,268	963,972	120,626 (J)	1,084,598	0	1,084,598
Other Taxes	941,841	211,191 (K)	1,153,032	697,844	133,031 (K)	830,875	6,042 (V)	836,917
State Income Taxes	156,055	(48,779) (L)	107,276	113,590	(27,754) (L)	85,836	79,958 (W)	165,794
Federal Income Taxes	1,008,114	(315,111) (M)	693,003	733,787	(179,288) (M)	554,499	516,531 (X)	1,071,030
Amort. Inv. Tax Credit	(11,923)	0 (N)	(11,923)	(9,047)	367 (N)	(8,680)	0	(8,680)
Total Operating Expenses	21,878,895	(2,612,220)	19,266,675	13,099,541	(1,647,963)	11,451,578	602,531	12,054,109
Net Operating Income	1,968,849	(611,684)	1,357,165	1,433,457	(348,396)	1,085,061	1,002,677	2,087,738
Plus: Customer Growth	(10,297)	10,297 (O)	0	(7,497)	7,497 (O)	0	0 (Y)	0
Less: Interest on Cust. Dep.	4,374	0	4,374	4,374	0	4,374	0	4,374
Total Income for Return	1,954,178	(601,387)	1,352,791	1,421,386	(340,899)	1,080,687	1,002,677	2,083,364
Original Cost Rate Base								
Plant in Service	43,312,910	5,448,768 (P)	48,761,678	32,865,945	2,632,557 (P)	35,498,502	0	35,498,502
Less: Accum. Depreciation	20,869,566	2,404,179 (Q)	23,273,745	16,187,821	1,339,636 (Q)	17,527,457	0	17,527,457
Total Net Plant	22,443,344	3,044,589	25,487,933	16,678,124	1,292,921	17,971,045	0	17,971,045
Additions								
Constr. Work in Progress	1,428,663	1,633,430 (R)	3,062,093	976,900	1,158,297 (R)	2,135,197	0	2,135,197
Materials & Supplies	355,982	(12,018) (S)	343,964	236,978	(12,378) (S)	224,600	0	224,600
Deductions								
Accum. Def. Inc. Taxes	3,904,435	0 (T)	3,904,435	2,962,695	(120,300) (T)	2,842,395	0	2,842,395
Customer Deposits	126,285	0	126,285	126,285	0	126,285	0	126,285
Total Rate Base	20,197,269	4,666,001	24,863,270	14,803,022	2,559,140	17,362,162	0	17,362,162
Rate of Return	9.68%		5.44%	9.60%		6.22%		12.00%

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Audit Exhibit SGS-2
Page 1 of 4

Adj. # Per Co. Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>				
(A) Rate Revenue				
1a	Reduced purchased power costs in the Power Adjustment Clause (PAC)	(2,636,478)	(2,636,478)	
1b	Fuel expense added to the PAC	177,665	177,665	
1c	Off-system sales credited to PAC	(645,672)	(737,233)	
1d	PAC costs not recovered from lighting rates	29,422	29,422	
1e	Reduced base revenue for Monarch Plant closing	(792,308)	(792,308)	
	Total Rate Revenue Adjustments	<u>(3,867,371)</u>	<u>(3,958,932)</u>	<u>(2,364,971)</u>
(B) Other Revenue				
2	Revenue from off-system sales for Wellford Landfill Generation Plant	<u>643,741</u>	<u>735,028</u>	<u>368,612</u>
(C) Purchased Power Expense				
3a	City of Union diesel plant peak shaving	(802,217)	(802,217)	
3b	City of Union diesel plant interim contract payments not recovered in PPA	(140,786)	(140,786)	
3c	Duke true-up for 2009	(1,445,686)	(1,445,686)	
3d	Reduced power requirements resulting from closing of Monarch	(833,929)	(833,929)	
	Total Purchase Power Expense Adjustments	<u>(3,222,618)</u>	<u>(3,222,618)</u>	<u>(1,974,681)</u>
(D) Production Expense				
4a	City of Union diesel operating and maintenance expenses	97,843	97,843	
4b	Wellford plant operating and maintenance expenses	256,164	252,875	
4c	Training Grant credit removal	5,307	5,307	
4d	Production portion of the labor adjustment	91,038	98,213	
4e	Normalize test year expenses for removal of debris from dam over 2 years.	0	(9,814)	
4f	Normalize test year expenses for extraordinary maintenance over 2 years.	0	(21,670)	
	Total Production Expense Adjustments	<u>450,352</u>	<u>422,754</u>	<u>195,088</u>

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Audit Exhibit SGS-2
Page 2 of 4

Adj. # Per Co. Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>				
5	<u>Labor Adjustment</u> - Adjustment was made to Production, Transmission, Distribution, Customer Accounting, and Administration and General, proportional to labor ratios. The total electric expense adjustment per Company is \$240,847, and per ORS \$259,822. Includes adjustments 4d, 5a, 5b, 5c, and 6a.			
(E) Transmission Expense				
5a	Transmission portion of the labor adjustment	13,407	14,472	3,890
(F) Distribution Expense				
5b	Distribution portion of the labor adjustment	47,662	51,419	50,418
(G) Customer Accounting Expense				
5c	Customer Accounting portion of the labor adjustment	24,106	25,982	23,778
(H) Administrative and General Expense				
6a	Administrative and General portion of the labor adjustment	64,635	69,736	
6b	Amortize Transmission Study over 2 years	(81,268)	(81,269)	
6c	Portion of fringe benefits on wage adjustments	26,908	9,548	
6d	Remove non-allowable expenses	0	(19,050)	
	Total Administrative and General Adjustments	10,275	(21,035)	(16,174)
(I) Regulatory Expense				
7a	Rate case amortization of current expenses	56,500	52,953	
7b	Remove prior rate case expenses	(30,217)	(30,217)	
	Total Regulatory Expense	26,283	22,736	22,736
(J) Depreciation Expense				
8a	Annualize depreciation expense including Union diesel generators and the Wellford Landfill Gas plant.	243,718	246,769	120,626
(K) Other Taxes				
9a	Property related tax adjustment to include updates for Union diesel generators and Wellford Landfill Gas plant.	213,565	196,272	
9b	Payroll tax portion of the wage adjustment	20,641	27,054	
9c	Revenue tax adjustment due to pro forma revenue adjustments	(12,135)	(12,135)	
	Total Other Taxes	222,071	211,191	133,031

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Audit Exhibit SGS-2
Page 3 of 4

Adj. # Per Co. Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>				
(L) State Income Taxes				
10	Adjust state taxes for pro forma adjustments	(51,944)	(48,779)	(27,754)
(M) Federal Income Taxes				
11	Adjust federal taxes for pro forma adjustments	(335,560)	(315,111)	(179,288)
(N) Amortized Investment Tax Credit Expense				
15	To adjust for changes in functionalization and allocation	0	0	367
(O) Customer Growth				
12	To adjust for customer growth.	3,407	10,297	7,497
(P) Plant in Service				
13a	Wellford Landfill Gas plant addition updated through March 31, 2011	2,475,500	2,293,404	
13b	City of Union Diesel Peaking plant addition	2,473,171	2,473,171	
13c	Normal plant activity through March 31, 2011	299,385	682,193	
	Total Plant in Service	5,248,056	5,448,768	2,632,557
(Q) Accumulated Depreciation				
8b	Annualized depreciation and updates for the Wellford Landfill Gas plant and City of Union Diesel Peaking plant.	1,683,188	2,404,179	1,339,636
(R) Construction Work in Progress				
14a	Adjustment to March 31, 2011 balance	2,209,277	4,423,314	
14b	Remove Wellford Plant and transfer to plant	(2,475,500)	(2,742,191)	
14c	City of Union diesel plant net adjustments	(59,804)	(118,403)	
14d	Capital portion of wage increase adjustment. ORS combined adjustments 14d and 14e.	18,451	70,710	
14e	Capital portion of employee count adjustment	39,002	0	
	Total Construction Work in Progress	(268,574)	1,633,430	1,158,297
(S) Materials & Supplies				
15	To adjust for changes in functionalization and allocation.	0	0	(4,530)
15a	To adjust for 13-month average of materials and supplies at March 31, 2011	0	(12,018)	(7,848)
	Total Materials & Supplies	0	(12,018)	(12,378)

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Audit Exhibit SGS-2

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Adj. #	Per Co.	Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>						
(T) Accumulated Deferred Income Taxes						
15			To adjust for changes in functionalization and allocation.	0	0	(120,300)
<u>Proposed Increase</u>						
(U) Rate Revenue						
16			To adjust for the Company's proposed rate increase			1,605,208
(V) Other Taxes						
17			To adjust other taxes for the Company's proposed increase			6,042
(W) State Income Taxes						
18			To adjust state income taxes for the Company's proposed increase			79,958
(X) Federal Income Taxes						
19			To adjust federal income taxes for the Company's proposed increase			516,531
(Y) Customer Growth						
20			To adjust customer growth for the Company's proposed increase. ORS does adjust for negative customer growth.			0

Lockhart Power Company
Depreciation & Amortization Expense Adjustment
For the Test Year Ending December 31, 2009
Docket No. 2010-181-E

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
Acct.	Description	Pro forma Plant Balance	Accumulated Depreciation Per Books 3/31/11	Unrecovered Balance	Depn. Rate	Pro forma Annual Depn. / Amort.	Historical Annual Depr Exp.	Annualized Pro forma Adjustment Depr Exp.	Pro forma Accumulated Depreciation	City of Union Diesel Purchase Adjustments	Allocated Pro forma Accumulated Depreciation
1	115.000 Amort. Elect. Plant Acq. Adjustment	303,996	17,460	286,536	1.92%	5,837					
2	Total Acquisition Adj.	303,996	17,460	286,536		5,837	5,820	17	17,477	0	17,477
3	Electric Plant in Service										
4	301.000 Organization Expense	403	0	403	0.00%	0					
5	302.000 Franchise & Consents	990,667	263,673	726,994	2.50%	24,767					
6	Intangible	991,070	263,673	727,397		24,767	24,767	0	263,673	0	263,673
7	330.000 Land and Land Rights	289,705	0	289,705	0.00%	0					
8	331.000 Structures and Improvements	255,210	171,918	83,292	2.00%	5,104					
9	332.000 Reservoirs and Dams	4,782,402	2,344,369	2,438,033	1.57%	75,084					
10	333.000 Waterwheels and Turbines	6,164,736	2,734,794	3,429,942	2.20%	135,624					
11	334.000 Accessory Electric Equipment	773,058	372,124	400,934	3.77%	29,144					
12	335.000 Misc. Power Plant Equipment	48,738	31,014	17,724	2.97%	1,448					
13	336.000 Roads and Railroads	68,205	17,874	50,331	2.50%	1,705					
14	Hydro Production	12,382,054	5,672,093	6,709,961		248,109	236,886	12,223	5,684,316	0	5,679,279
15	340.000 Land & Land Rights	3,270	0	3,270	0.00%	0					
16	341.000 Structures & Improvements	1,214,654	11,737	1,202,917	5.00%	60,733				380,739	
17	342.000 Fuel Holders, Producers & Acces.	123,325	7,557	115,768	5.00%	6,166				8,031	
18	344.000 Generators	4,394,733	341,097	4,053,636	5.00%	219,737				510,015	
19	345.000 Accessory Electric Equipment	536,025	413	535,612	5.00%	26,801					
20	Other Production	6,272,007	360,804	5,911,203		313,437	86,007	228,430	589,234	898,785	1,487,497
21	350.000 Land & Land Rights	51,657	0	51,657	0.00%	0					
22	352.000 Structures and Improvements	227,105	146,878	80,227	2.75%	6,245					
23	353.000 Station Equipment	2,444,383	1,536,750	907,633	2.75%	67,221					
24	355.000 Poles and Fixtures	766,811	582,541	184,270	3.16%	24,231					
25	356.000 Overhead Cond. and Devices	907,946	569,903	338,043	2.20%	19,975					
26	Transmission	4,397,902	2,836,072	1,561,830		117,672	116,574	1,098	2,837,170	0	2,834,666
27	360.000 Land & Land Rights	33,205	0	33,205	0.00%	0					
28	361.000 Structures and Improvements	325,283	130,593	194,690	2.88%	9,368					
29	362.000 Station Equipment	4,144,384	1,849,609	2,294,775	2.75%	113,971				45,983	
30	364.000 Poles, Towers and Fixtures	5,709,953	2,447,242	3,262,711	3.42%	195,280					
31	365.000 Overhead Cond. And Devices	3,634,318	2,391,488	1,242,830	3.25%	118,115					
32	367.000 Underground Cond. And Devices	241,412	106,443	134,969	3.00%	7,242					
33	368.000 Line Transformers	2,883,955	1,726,397	1,157,558	2.76%	79,597					
34	369.000 Service - Distribution	2,047,627	1,494,426	553,201	4.83%	98,900					
35	370.000 Meters - Distribution	1,727,273	486,252	1,241,021	2.97%	51,300					
36	373.000 Street Lighting - Distribution	1,526,391	808,568	717,823	3.50%	53,424					
37	Distribution	22,273,801	11,441,018	10,832,783		727,197	687,325	39,872	11,480,890	45,983	11,516,699
38	390.000 Structure and Improvements	467,803	227,159	240,644	1.62%	7,578					
39	391.000 Office Furniture and Equipment	428,540	452,893	(24,353)	10.00%	0					
40	392.000 Transportation Equipment	940,856	631,668	309,188	9.50%	89,381					
41	394.000 Tools, Shop and Garage	193,938	121,663	72,275	4.00%	7,758					
42	395.000 Laboratory Equipment	12,315	14,730	(2,415)	5.56%	0					
43	397.000 Communication Equipment	97,396	62,530	34,866	7.47%	7,275					
44	General	2,140,848	1,510,643	630,205		111,992	146,863	(34,871)	1,475,772	0	1,474,464
45	Electric Plant in Service	48,457,682	22,084,303	26,373,379		1,543,174	1,296,422	246,752	22,331,055	944,768	23,256,268
46	108.500 Cost of Removal/Salvage	0	(19,555)	19,555		0	0	0	(19,555)	0	
47	Grand Total	48,761,678	22,082,208	26,679,470		1,549,011	1,302,242	246,769	22,328,977	944,768	23,273,745

PROFORMA BALANCE
 PER BOOKS 12/31/2009
 PROFORMA ADJUSTMENT:

1,549,011
1,302,242
246,769

23,273,745
20,869,566
2,404,179

Notes:

Column G = Column C x Column F

Column J = Column D plus Column I

Column J allocates proportionally of the Cost of Removal to all categories except Acquisition Adjustments & Intangible

Lockhart Power Company
Docket No. 2010-181-E
Computation of Income Taxes
For the Test Year Ended December 31, 2009

Audit Exhibit SGS-4

After ORS's Accounting & Pro Forma Adjustments

<u>Description</u>	<u>\$ Total Electric Operations</u>	<u>\$ Retail Electric Operations</u>
Operating Revenues	20,623,840	12,536,639
Operating Expenses	18,478,319	10,819,923
Net Operating Income Before Taxes	2,145,521	1,716,716
Less: Annualized Interest Expense	0	0
Taxable Income - State	2,145,521	1,716,716
State Income Tax %	5.0%	5.0%
State Income Taxes	107,276	85,836
Less: State Income Taxes Per Book	156,055	113,590
Adjustment to State Income Taxes	(48,779)	(27,754)
Taxable Income - Federal	2,038,245	1,630,880
Federal Income Taxes %	34.0%	34.0%
Federal Income Taxes	693,003	554,499
Less: Federal Income Taxes Per Book	1,008,114	733,787
Adjustment to Federal Income Taxes	(315,111)	(179,288)

After Proposed Increase

<u>Description</u>	<u>\$ Retail Electric Operations</u>
Operating Revenues	14,141,847
Operating Expenses	10,825,965
Net Operating Income Before Taxes	3,315,882
Less: Annualized Interest Expense	0
Taxable Income - State	3,315,882
State Income Tax %	5.0%
State Income Taxes	165,794
Less: State Income Taxes As Adjusted	85,836
Adjustment to State Income Taxes	79,958
Taxable Income - Federal	3,150,088
Federal Income Taxes %	34.0%
Federal Income Taxes	1,071,030
Less: Federal Income Taxes As Adjusted	554,499
Adjustment to Federal Income Taxes	516,531